

## **EXHIBIT 1**

### **INTRODUCTION**

On September 3, 2003, the Commission issued a Default Decision and Order *in the Matter of Colin Flaherty*, FPPC No. 99/783, imposing an administrative penalty of \$76,000 on Colin Flaherty for, among other things, thirty-six violations of section 84301 of the Government Code, commonly referred to as “campaign money laundering.” In committing these violations, Colin Flaherty (“Flaherty”) executed a scheme to inject money into the campaigns of local candidates, while concealing himself as the source of the contributions. Flaherty executed this money laundering scheme by asking persons who worked for his public relations firm, Flaherty Communications, friends, relatives, and others to make campaign contributions, and then reimbursing those persons for their contributions. One of these persons was Respondent, Arthur J. Johnston, III, also known as Jim Johnston.

Respondent, a long-time friend of Flaherty, and a self-employed media consultant in San Diego, made six contributions on behalf of Flaherty, for which he was reimbursed, without disclosing to the recipients of the contributions that Flaherty was the true source of the contributions and other required information.

For the purposes of this Stipulation, Respondent’s violations of the Political Reform Act (the “Act”)<sup>1</sup> are stated as follows:

**COUNT 1:** On or about August 25, 1997, Respondent Arthur J. Johnston made a campaign contribution to Perris City Council candidate Raul Mark Yarbrough on behalf of Colin Flaherty, by issuing a \$95.00 check to “Yarbrough for Council,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

**COUNT 2:** On or about August 25, 1997, Respondent Arthur J. Johnston made a campaign contribution to Perris mayoral candidate Al Landers on behalf of Colin Flaherty, by issuing a \$95.00 check to the “Al Landers Mayor,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

**COUNT 3:** On or about September 15, 1997, Respondent Arthur J. Johnston

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<sup>1</sup> The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in sections 18109 through 18997 of title 2 of the California Code of Regulations. All regulatory references are to title 2, division 6 of the California Code of Regulations, unless otherwise indicated.

made a campaign contribution to Perris City Council candidate Cecilia Larios on behalf of Colin Flaherty, by issuing a \$95.00 check to the “Larios for Council,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

COUNT 4: On or about October 14, 1997, Respondent Arthur J. Johnston made a campaign contribution to the Riverside County Business & Property Owners Coalition on behalf of Colin Flaherty, by issuing a \$250.00 check to the “Riverside Bus. & Prop. Coalition,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

COUNT 5: On or about September 9, 1998, Respondent Arthur J. Johnston made a campaign contribution to Encinitas City Council candidate John Davis on behalf of Colin Flaherty, by issuing a \$99.00 check to “John Davis for Council,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

COUNT 6: On or about September 9, 1998, Respondent Arthur J. Johnston made a campaign contribution to Encinitas mayoral candidate Lou Aspell on behalf of Colin Flaherty, by issuing a \$99.00 check to “Lou Aspell for Mayor,” without disclosing to the recipient of the contribution the identity of the true source of the contribution and other required information, in violation of section 84302 of the Government Code.

### **SUMMARY OF THE LAW**

In order to ensure that the actual source of campaign contributions is disclosed to the public, section 84301 prohibits contributions being made, directly or indirectly, by any person in a name other than the name by which such person is identified for legal purposes.

Section 84302 requires a person making a contribution on behalf of another, or while acting as the intermediary or agent of another, to disclose specific information to the recipient of the contribution. The person must disclose about himself or herself his or her own full name, street address, occupation, employer’s name, if any, or if self-employed, his or her principal place of business. The person must also disclose about the other person, his or her full name, street address, occupation, employer’s name, if any, or if self-employed, his or her principal place of business. As specified in regulation 18432.5, a person is an intermediary for a contribution, for the purposes of section 84302, if the recipient of the contribution would consider the person to be the contributor without the disclosure of the identity of the true source of the contribution.

### **SUMMARY OF THE FACTS**

Colin Flaherty is, and was at all times pertinent hereto, the sole owner of Flaherty Communications, a public relations firm formerly located in Encinitas and San Diego. In 1997, Flaherty solicited campaign contributions for candidates on behalf of Barratt American Homes, a Carlsbad homebuilder with projects throughout Southern California, including the City of Perris. At the time of the solicitations, Barratt American Homes was Flaherty's biggest client and had received permission to build a large residential subdivision in the City of Perris ("McCanna Ranch," now "Village of Avalon"); however, it was hoping to revise the conditions imposed by the city for approval of the project. Barratt American Homes stood to gain or lose money depending upon actions taken by the Perris City Council with respect to the amount of the building fees that would be required in connection with the project. Al Landers, a Perris City Councilman and candidate for Mayor of Perris in 1997, was in support of the changes Barratt American Homes favored for the McCanna Ranch project.

As described in the Default Decision and Order issued *in the Matter of Colin Flaherty*, cited above, Flaherty executed a scheme to inject money into the campaigns of Perris and other local candidates, while concealing himself as the source of the contributions. Flaherty executed this money laundering scheme by asking persons who worked for his public relations firm, friends, relatives, and others to make campaign contributions, and then reimbursing those persons for their contributions. One of these persons was Respondent.

Respondent, a long-time friend of Flaherty, and a self-employed marketing consultant in San Diego, made six contributions on behalf of Flaherty in 1997 and 1998, for which he was reimbursed. Respondent was required, under section 84302, to disclose to the recipients of the contributions that Flaherty was the true source of the contributions and provide specific information about himself and Flaherty. He failed to do so.

Supervising Commission Investigator Dennis Pellón conducted three interviews with Respondent. In the first two interviews, Respondent acknowledged that he made six contributions at the behest of Flaherty, but denied that he had been reimbursed. However, in the third interview, Respondent recanted his prior statements and admitted making contributions on behalf of Flaherty, for which he had been reimbursed. He further admitted that Flaherty offered to reimburse him at the same time that Flaherty solicited the contributions.

The recipients, dates, and amounts of the contributions, for which Respondent was reimbursed, and no intermediary disclosure was made, are set forth in the chart below:

Count	Recipient of Contribution	Date and Amount of Contribution	Date and Amount of Reimbursement
1	Raul Mark Yarbrough, candidate Perris City Council	August 25, 1997 \$95.00	August 27, 1997 \$200.00
2	Al Landers, candidate Mayor of Perris	August 25, 1997 \$95.00	
3	Cecilia Larios, candidate Perris City Council	September 15, 1997 \$95.00	September 17, 1997 \$100.00

4	Riverside County Business & Property Owners Coalition, Primarily formed committee to support Al Landers, Raul Mark Yarbrough, and Cecilia Larios	October 14, 1997 \$250.00	October 16, 1997 \$250.00
5	John Davis, candidate Encinitas City Council	September 9, 1998 \$99.00	September 9, 1998 \$200.00
6	Lou Aspell, candidate Mayor of Encinitas	September 9, 1998 \$99.00	

By making six campaign contributions on behalf of Flaherty, without disclosing to the recipients of the contributions the identity of the true source of the contributions and other required information, Respondent committed six violations of section 84302.

### CONCLUSION

Respondent participated in a money laundering scheme executed by his friend and employer, Colin Flaherty, by making six campaign contributions on behalf of Flaherty without disclosing to the recipients of the contributions that Flaherty was the true source of the contributions. Respondent then compounded his unlawful conduct by making false statements to Commission investigators, denying that he had been reimbursed for his campaign contributions. However, Respondent recanted his prior statements, and showed remorse for his conduct. He voluntarily came forward, by providing documentation regarding the reimbursements and admitting to the six violations stated herein.

This matter consists of six counts, which carry a maximum administrative penalty of Twelve Thousand Dollars (\$12,000) for violations occurring prior to January 1, 2001.

The facts of this case, including the factors discussed above, justify imposition of the agreed upon penalty of Six Thousand Dollars (\$6,000).